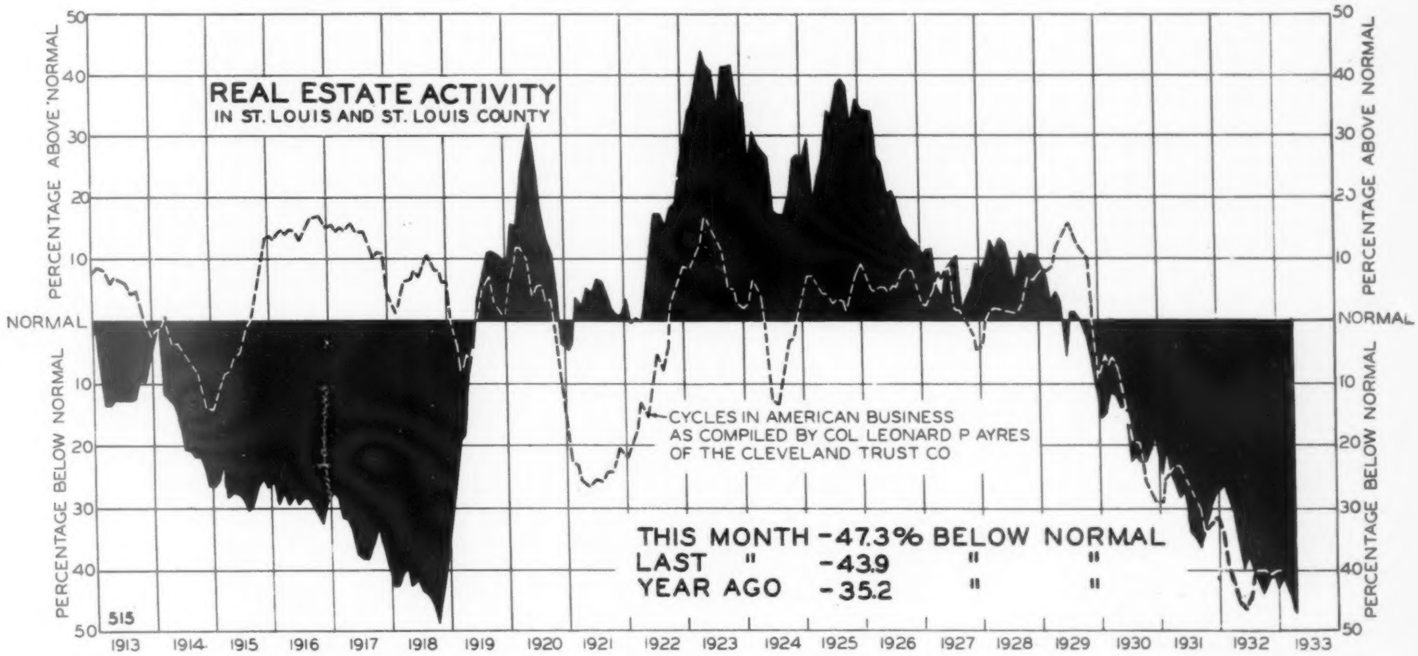
APRIL 1933

The Real Estate ANALYST

SAINT LOUIS EDITION



THAT March, 1933, was the worst month ever experienced by Saint Louis business is an opinion which we believe will be borne out by the facts. That it was the worst month ever experienced by Saint Louis real estate interests is a fact capable of measured proof. Only once since the Civil War has our Real Estate Activity chart gone further below normal than it did last month. In October, 1918, it declined to 48.4% below normal. At that time, however, foreclosures were only 37½% as high as they were last month.

We are not alarmed at this new low record as many indicators suggested that lower levels were inevitable before recovery could come. In the Real Estate Analyst of February, we pointed out the possibility of the United States being forced to suspend gold payments. When this occurred one month later it cleared the atmosphere. We believe that now recovery rests almost entirely with the administration in Washington. If issues are squarely and decisively met with intelligently corrective legislation, the worst of the depression is behind us.

THE MONTH'S CHANGES AT A GLANCE

The indicators at the bottom of the page will show at a glance the month's changes in conditions. The position of the arrow head shows the movement during the month - up indicating improvement and down, decline.

OUR MONEY AND CREDIT PROBLEM

WHEN Franklin Roosevelt adopted the campaign slogan of "the new deal", he probably did not expect the thorough reshuffling of the deck which immediately preceded his turn as dealer. During the past month and a half the entire monetary, banking and credit structure of the United States has collapsed. We believe that this crash was inevitable. We were in the hazardous position before of attempting to repair the motor of our plane while still in the air, constantly in fear that our necessary tinkering would aggravate the trouble and precipitate the crash. We have crashed and lived through it. The propellor is broken and the frame is twisted but we can now undertake the repairs with our feet on the ground. If we find it advisable, we may even rebuild the entire plane along lines which the instability of past experience might indicate would produce greater safety.

WHAT CAUSED THE CRASH?

One man has explained it as follows: "The bank crash was relatively simple in its fundamentals. Several times before in the United States we have had complete suspension of banking. It always grew out of a period in which men bought stocks, bonds, property and everything else with the expectation of selling it to someone else at a higher price. It was the old 'something for nothing' game with the banks furnishing the credit for the big show. Ultimately the wool on the lambs begins to get short and the conservative folks more doubtful and the interest or carrying charges heavier - crash - and the prolonged period of depression sets in". There is a great deal of truth in this statement, although the situation is not so simple, nor with rare but glaring exceptions was "the fleecing of the lambs" knowingly engaged in to any great extent by American business. "All the perplexities, confusions, and distresses in America", wrote John Adams in a letter to Thomas Jefferson in 1787, "arise not from defects in the Constitution or Confederation, nor from a want of honour or virtue, so much as from downright ignorance of the nature of coin, credit and circulation." This statement was made during the great depression which followed the Revolutionary War but we believe it would apply equally well to all of the great depressions from that time to this. What effect has "the nature of coin,credit and circulation" had on the post war boom and the present depression?

THE HISTORY OF THE EXPANSION OF CREDIT IN THE UNITED STATES.

On pages 134-136, in this issue, the development of our "usable money" from 1860 - 1932 is shown. By "usable money" we mean currency in circulation plus bank credit, which most of us use far more frequently than actual currency in handling our receipts and expenditures.

It will be noticed immediately that while currency in circulation per cap-

ita increased a little more than twice from 1870 to 1928, bank credit per capita increased ten and a half times. In 1870, our total "usable money" per capita was approximately sixty-one dollars. In 1928 it totaled about four hundred ninety-four dollars. Why this tremendous increase in circulating "money"? There are apparently two reasons:

In 1870, commercial life was not as highly organized as at present. A large part of our population was living on farms where the home was, to a large extent, a self-contained unit, making and consuming its own foodstuffs, clothes and fuel. Very little money was required under this sort of an economic structure. Total production in the United States was relatively low at this period and, accordingly, little credit was needed.

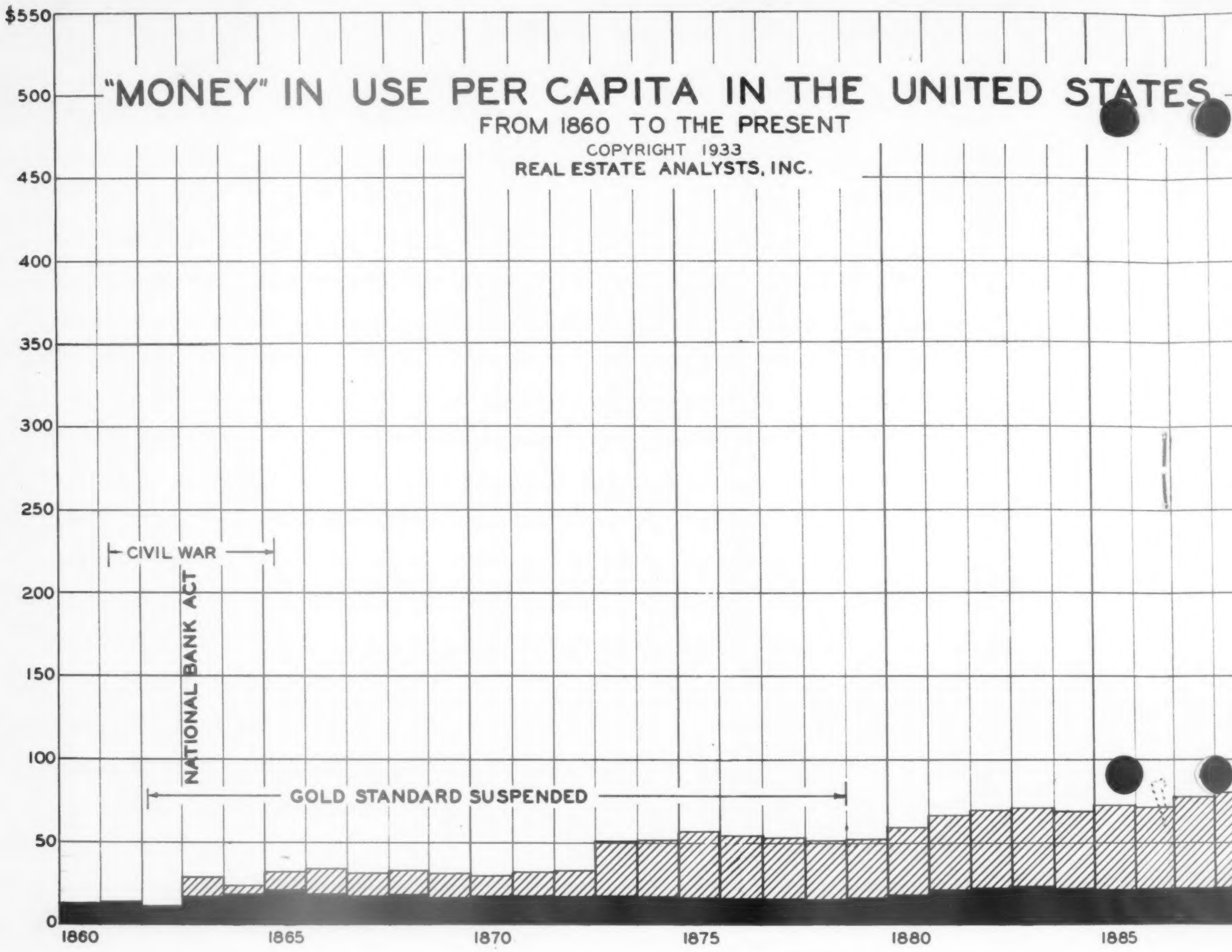
The other reason for the larger amount of money necessary in recent years is the difference in price levels in the two periods. In 1928, the cost of living in the United States was ninety percent higher than it was in 1870. Were all other conditions exactly equal in both years, it would have taken ninety percent more money or bank credit to have taken care of the same transactions in 1928.

But why has the increase come in bank credit rather than in currency in circulation? Here, too, we find two reasons: First, the greater convenience of using checks for transferring credit; and, second, the inadequacy in the amount of money obtainable if we limit our currency to any reasonable relationship to the gold on which it is based. With less than eleven billion dollars worth of monetary gold in the entire world, we had more than sixty-two billion dollars of currency and bank credit in use in the United States alone during the boom. Each dollar of gold in this country, some of it belonging to foreign governments and merely on deposit here, was supporting more than fourteen dollars worth of currency and credit. This has been referred to as our "gold-plated standard".

This credit system works fine in a period when confidence is strong. But just as soon as there is a shock to confidence the top-heavy structure topples over. Bank credit contracts and "money" becomes very scarce. That is what has happened recently in the United States. In the last week of March, actual currency in circulation set a new high record but the contraction of bank credit was so severe that "money" was very scarce.

EMERGENCY CURRENCY ISSUED - 12¢ PER CAPITA

Each additional billion dollars worth of currency put in circulation increases the per capita amount about $7.75. According to the latest Treasury report, only $15,930,000 of the emergency currency found its way into actual circulation.

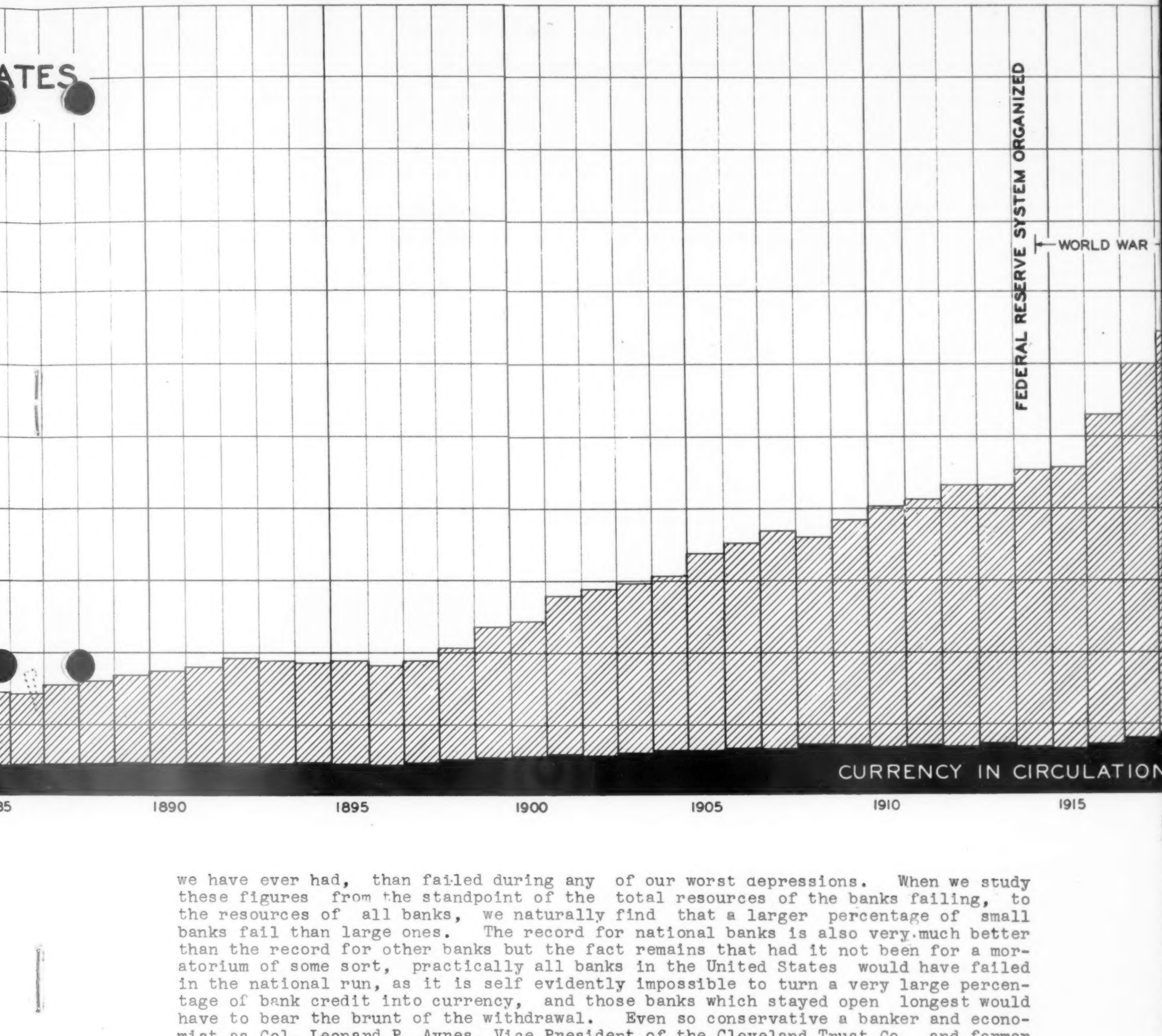


This is about 12¢ per capita. To compensate for the loss of bank credit would require about $20,000,000,000 of additional currency.

In a country on the gold standard, theoretically every dollar of currency and bank credit is redeemable in gold. If for any reason, however, enough people exercise this right of redemption, it is clearly apparent that there is not one-tenth enough gold to take care of this demand. The fact that enough people in the United States wanted to exercise this right last month forced the United States to join the forty-four other nations which have found it necessary to suspend the gold standard. The statement of Secretary Woodin a month ago, "We are definitely on the gold standard. Gold merely cannot be obtained for several days", is silly. We cannot return to the gold standard as we had it for many months without again risking a complete collapse. We say this in full realization of the fact that on March 15, the United States Treasury issued short term bonds for $800,000,000, some running five and some nine months, with principal and interest payable in United States gold coin of the present standard of weight and fineness.

PERCENTAGE OF BANKS FAILING - 1865 - 1933.

The impossibility of maintaining a credit structure of the type we have built since the war is clearly shown by the chart on the bottom of page 136. This chart shows the percentage of all banks in the United States failing each year from 1865 to the present, with the percentage for 1933 suggested. We think that the final figure for 1933 will be above the top of the chart. It is quite significant that from 1921 on, we had a larger percentage of all banks fail during the biggest boom

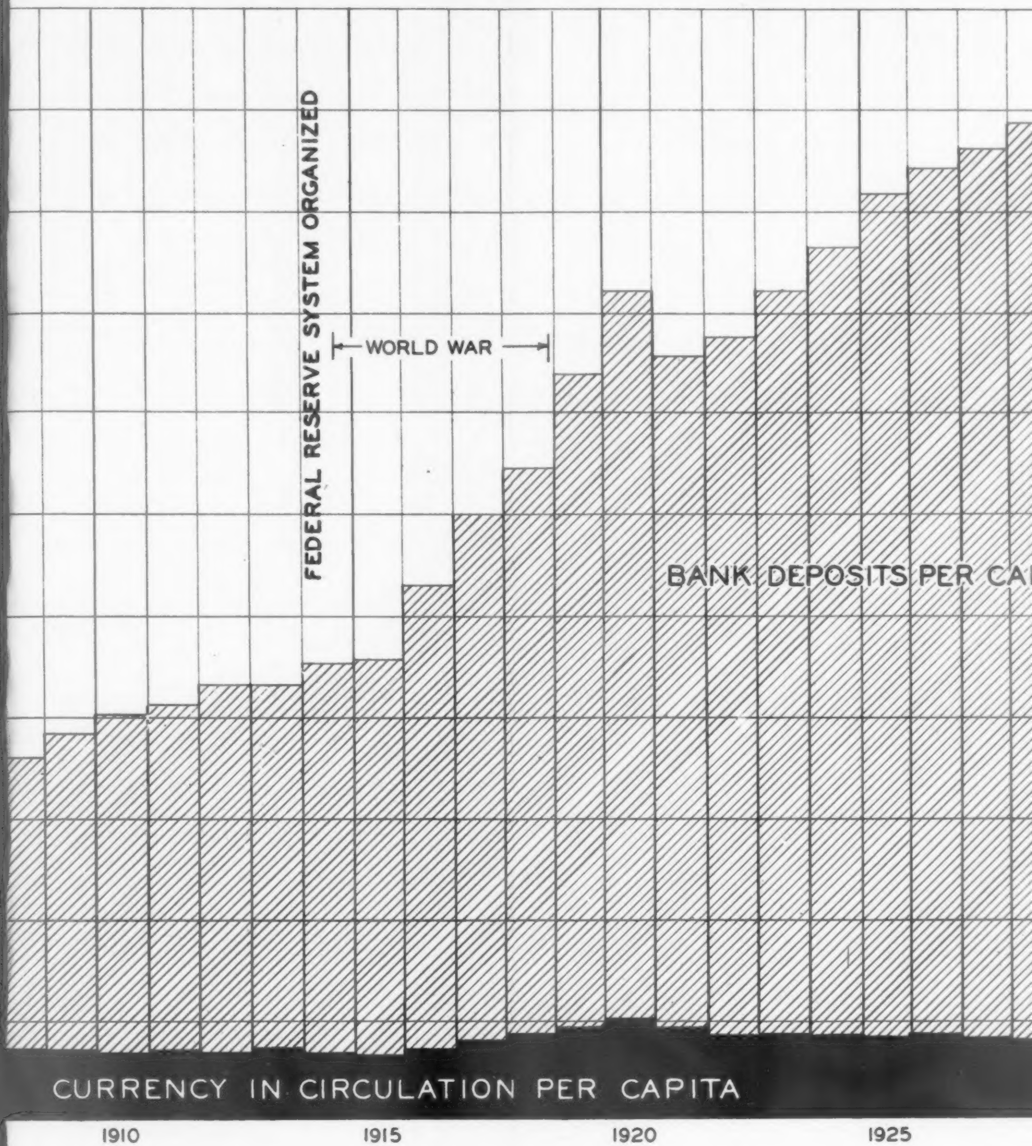


we have ever had, than failed during any of our worst depressions. When we study these figures from the standpoint of the total resources of the banks failing, to the resources of all banks, we naturally find that a larger percentage of small banks fail than large ones. The record for national banks is also very much better than the record for other banks but the fact remains that had it not been for a moratorium of some sort, practically all banks in the United States would have failed in the national run, as it is self evidently impossible to turn a very large percentage of bank credit into currency, and those banks which stayed open longest would have to bear the brunt of the withdrawal. Even so conservative a banker and economist as Col. Leonard P. Ayres, Vice President of the Cleveland Trust Co., and former president of the American Statistical Association, says, "It is clear now that we need fundamental changes, not only in our banking system, but in our Federal Reserve System, and in our money itself".

We have gone into some detail in an effort to explain this situation because we believe that unless fundamental changes are made, permanent recovery is to be long delayed. We think it probable that an effort will be made to make only emergency repairs to the business machine and to go back to the monetary and credit machinery we found it necessary to leave a month ago. Unless drastic changes are made, recovery of any permanent type cannot be expected.

A POSSIBLE REMEDY

There is a difference of opinion among economists on the cause of our present low prices. One school believes that they are the result of over production and



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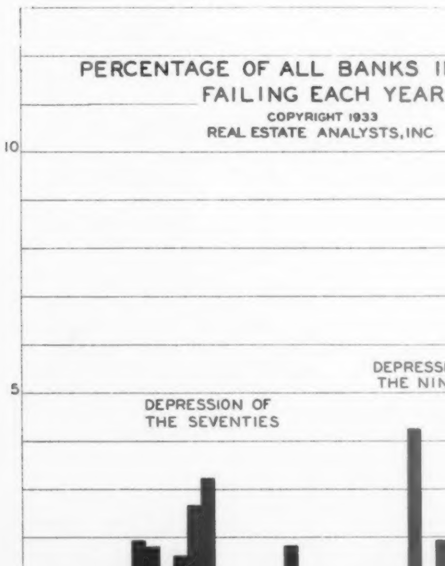

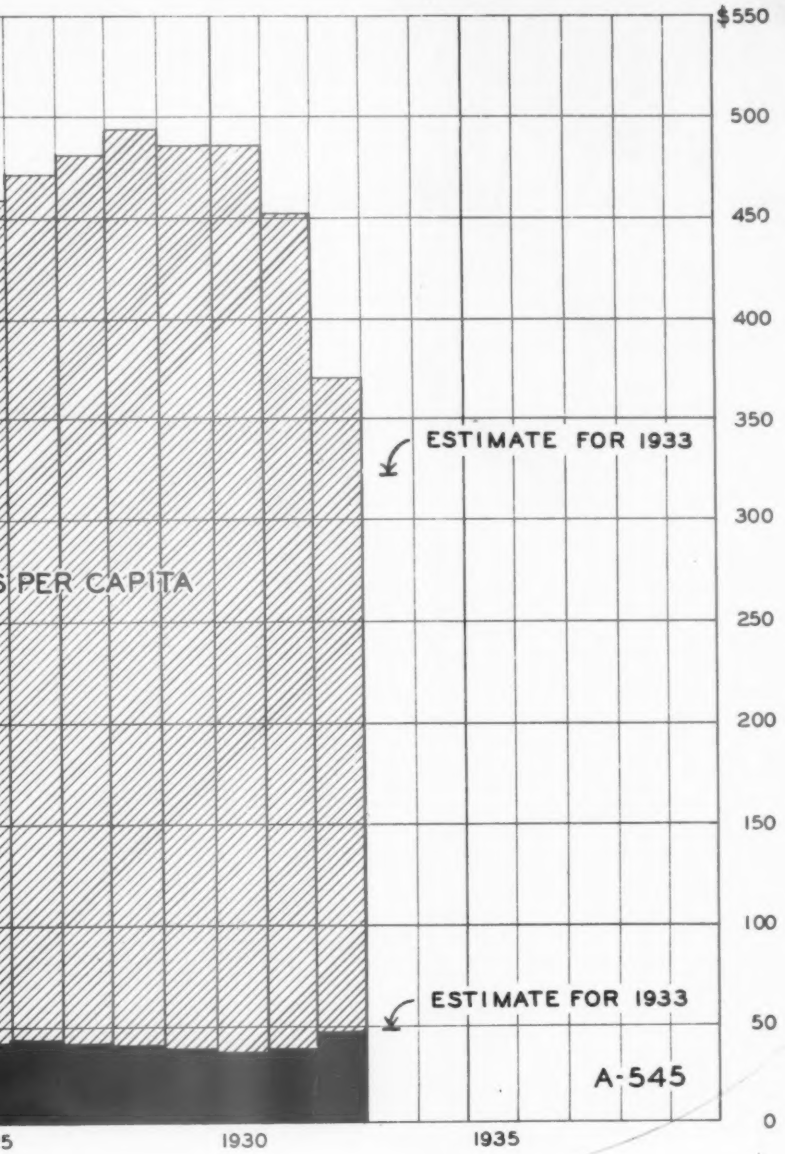

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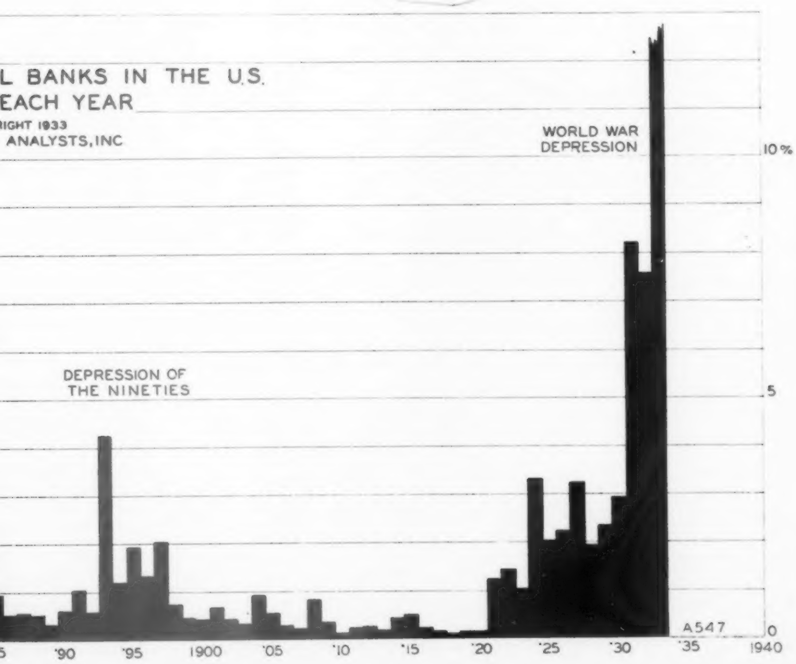

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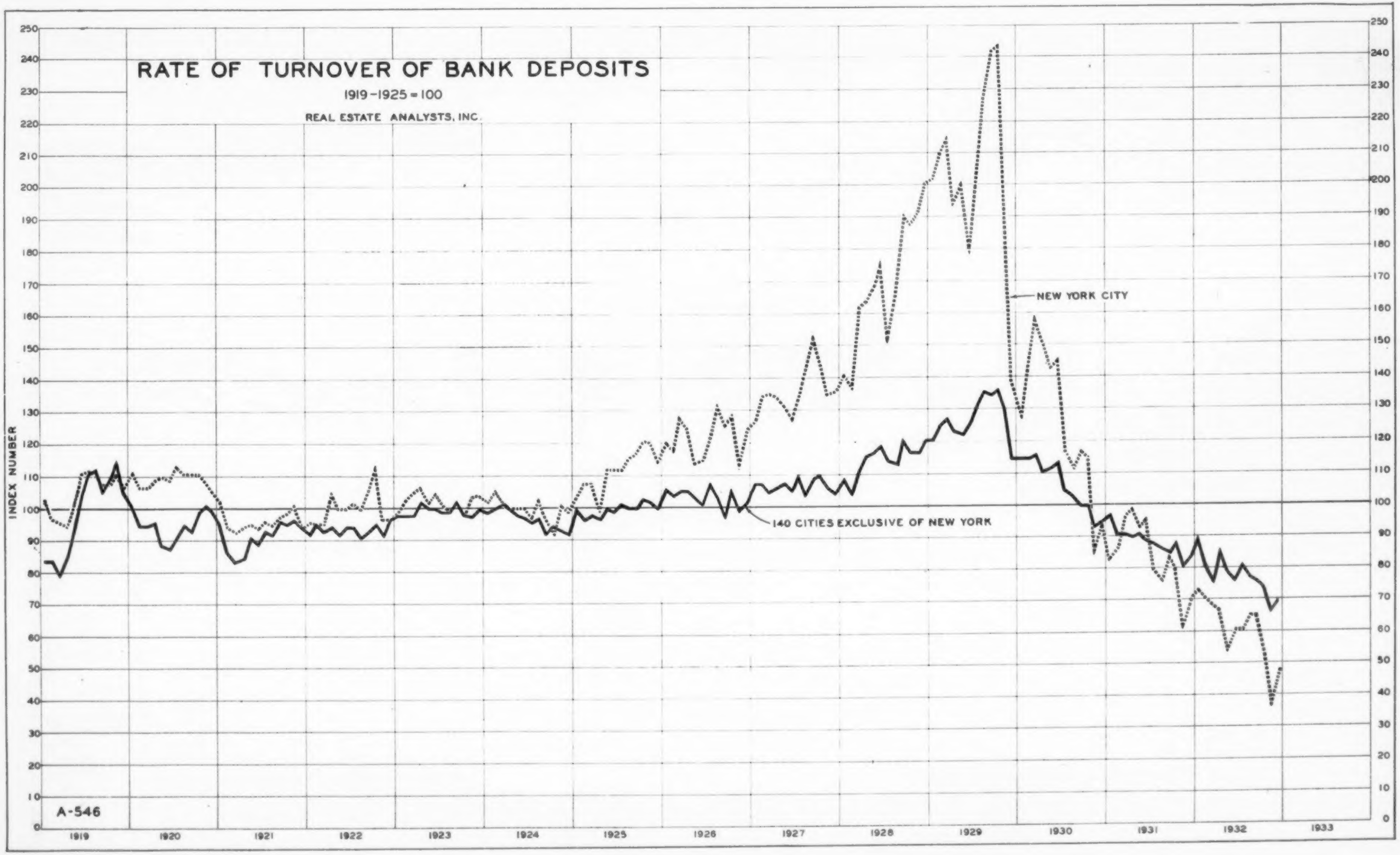
RATE OF TURNOVER OF BANK DEPOSITS
1919-1925 = 100
REAL ESTATE ANALYSTS, INC.
A-546
INDEX NUMBER
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depression. The other school believes that they are due largely to the present value of gold and are not primarily caused by the depression but are the cause of it. This second group believes that prices at the present level are merely a return to normal after the war inflation. Both groups believe that a continuance of the present price level must result in a disastrous liquidation of a large part of the indebtedness contracted on the higher price level. Both groups believe that the price level can be raised. The first group would do this by expanding bank credit, the other group by decreasing the gold equivalent of the dollar. We believe that the administration in Washington will make every possible effort to raise prices by trying to expand credit but we are inclined to believe that in the end it may be necessary to revalue the dollar as France and Belgium have revalued the franc, and Italy the lira. We believe that England will revalue her pound sterling before she can go back on gold. In 1834, as pointed out in the February issue of the Real Estate Analyst, the United States reduced the gold equivalent of her dollar by a little more than 6%. At that time it was done to change the ratio of gold to silver and without any effort to raise prices. One month later, however, prices started a gradual assent although the trend had been consistently downward since the fall of 1810.

Revaluing the currency will not have a permanent stabilizing effect. We can return the price level to any former position by revaluation but to keep it there is a problem involving other factors. However, to return it to a level more nearly equal to the 1926 level is the first step in the restoration of value which would make the payment of debt possible.

How could the dollar be revalued? The process is very simple. In fact, we are in a strategic position at the present time to do it. The executive order of Franklin Roosevelt, issued on April 5, 1933, calling for a return of all gold to the United States Treasury, is the first step. The next step would be for Congress to pass a bill raising the price of gold from $20.67 per ounce to any predetermined figure. All gold coins still illegally hoarded would become worth more as metal than they are as coin and would be melted and sold. If gold coins were reissued by the Treasury, they would be of lighter weight to correspond with the new value of gold. It is doubtful, however, if new coins would be issued at all. In all probability the gold in the Treasury would be cast in bars, with paper money redeemable in bullion rather than in coin. Gold would be used only in international trade and as a legal backing for currency.

Whether this will be done or not will depend on the administration but it seems to us that the probable failure of other methods to raise prices will result

in serious consideration of this method which all economists,whether for or against, admit will be sure and quick. We believe that the result of revaluation would be a restoration of business activity in a comparatively short time. Unless gold is revalued, there can be no immediate prospect of a resumption of gold redemption.

EFFICIENCY WITH WHICH CHECKING ACCOUNTS ARE USED

The chart on page 137 shows the relative efficiency with which bank deposits are used in New York City and in 140 cities exclusive of New York. In order to thoroughly understand the illusion of the reduction in the amount of money, it is necessary to realize that one hundred dollars changing hands rapidly may do more money work than a thousand dollars hidden in a mattress or other safe place. In the same way, an average of one hundred dollars on deposit in a very active account in which checks are being drawn daily and deposits made frequently,may do far more money work than an average of a thousand dollars in an inactive account where both checks are drawn and deposits made at very infrequent intervals. Bank credit may be hoarded as well as cash.

This index shows the relationship of the total amount of all checks drawn each month to the average total demand deposit for the month. It measures the velocity of turnover of bank deposits or the amount of money work which each dollar of bank deposits is doing. It is particularly interesting when considered in connection with the amount of bank credit available at different times.

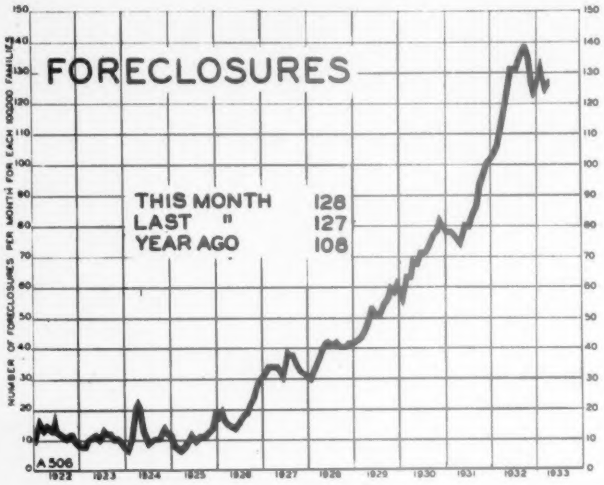
If both the amount of bank credit and the velocity of turnover is reduced at the same time, the resulting reduction in the money work which can be done is greatly lessened and money seems to have disappeared. If, for instance, the volume of bank credit has been reduced 21% since 1929 and the rate of turnover 69%. then the amount of money work which can be done by the bank credit is 79% x 31% = 25%, or a shrinkage in the amount of money work which this money will do of 75%. This instability is fundamental in our monetary and credit structure. It, together with the changing value of gold is, we believe, one of the fundamental causes of the wild extremes of ridiculous inflation in boom times and destructive liquidation in periods like the present. No exchange system can stand a reduction of 75% in the usable volume of its medium of exchange without breaking down. When it breaks down, it stops the normal flow of merchandise and creates the impression of over production.

"Technocrats", convinced of over production, have been prophesying doom in each major period of depression during the past two hundred years. The only novelty in their more recent utterances is the delightfully impressive obscurity in their scientific sounding phrases. We believe that in every period like the present, over productive capacity is grossly exaggerated, and too little emphasis put on the fact that the real trouble is the breakdown in the machinery of distribution.

Real Estate Analysts, Inc., believe that the velocity of turnover of bank credit is one of the best business indicators obtainable. We are at present at work on a barometer of this sort for Saint Louis.

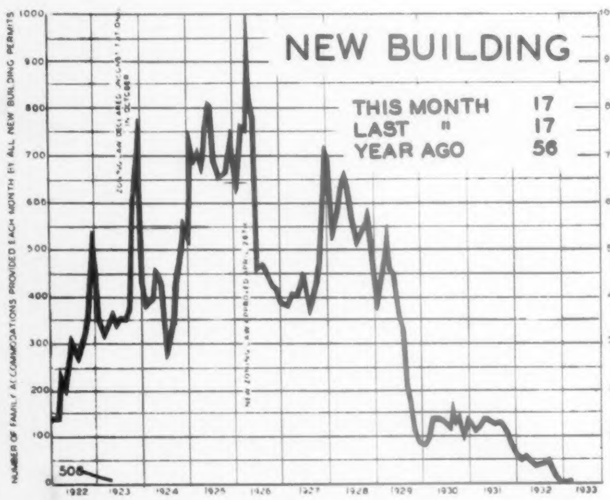
MORATORIUM ON FORECLOSURES

On April 5, 1933, the Judiciary Committee of the House at Jefferson City passed unfavorably on the Moratorium Senate Bill 277. This is the bill discussed in a special letter to our clients on March 18th,which provided for possible extensions on delinquent deeds of trust to March 1, 1935. This bill was clearly unconstitutional. References to cases in which both the State Supreme Court and the United States Supreme Court had declared similar laws unconstitutional in the past were turned over to the Real Estate Exchange by Real Estate Analysts, Inc., and were presented by them to members of the legislature. We believe this had considerable effect in defeating the bill.



APARTMENT RENTALS:
Drop during the month............ 2.9%
Drop since first of the year..... 4.2%
Drop in last 12 months...........17.1%
Drop from the peak in 1922.......40.0%

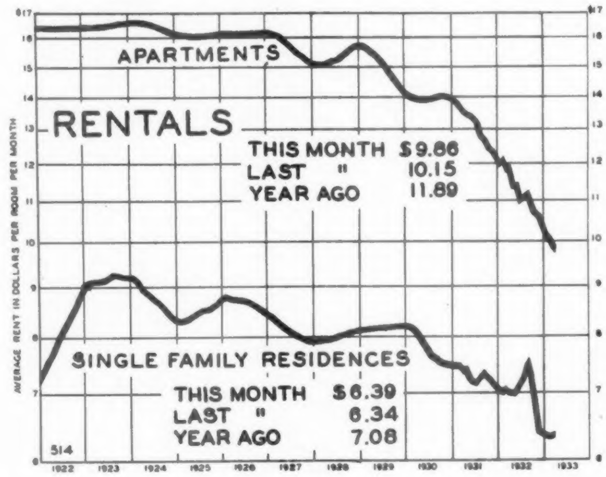
SINGLE FAMILY RESIDENCE RENTALS:
Gain during the month............ 0.8%
Change since first of the year... 0.0%
Drop in the last 12 months....... 9.7%
Drop from the peak in 1924.......30.5%



DURING the month of March, 213 marriage licenses were issued in Saint Louis. This is the smallest number issued in any month since March 1882, fifty one years ago. Undoubtedly the bank moratorium and the general business uncertainty postponed many marriages which would otherwise have taken place. This total is interesting in contrast with the figure of 569 for March 1921, the highest March on record, and with 1515 in June 1920, the highest month on record. We are now 19,700 marriages short since the "marriage depression" started.

FORECLOSURES during March maintained, with little change, the high levels established in the last half of last year. Their height during the balance of this year may be influenced by legal difficulties.

While the moratorium bill was rejected by the State Legislature (see page 139) the application of the new Federal Bankruptcy law to obligations secured by deed of trust is of growing importance. It has just been invoked a second time in Saint Louis, this time to set aside a sale at which a notice to redeem had been filed.



THERE has been very little change in the level of residential construction nor can any be expected in the near future. As long as economic conditions necessitate doubling up of families, postponement of marriage, and movement from urban centers, the apparent over supply of residential quarters will act as a barrier to all speculative building. When these conditions have been reversed for a long enough period an unsuspected demand will develop into large proportion and a new boom will occur in the construction and real estate business.